CITY OF MARICOPA

PROUD HISTORY • PROSPEROUS FUTURE

State Shared Revenues

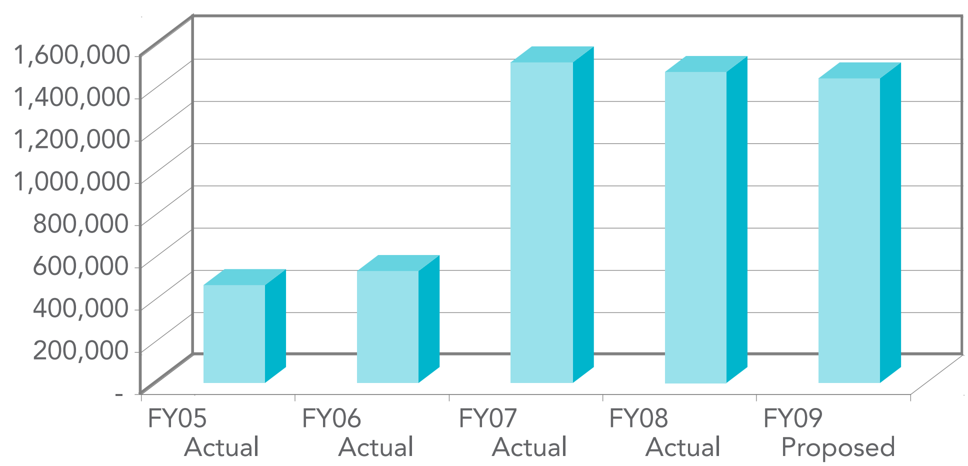
There are a variety of funding sources available for local governments within the state of Arizona. Therefore, in the following pages an explanation of these revenues sources available from the Federal and State governments as well as the revenues, which can be raised by the local government itself.

STATE SHARED REVENUES

Cities and towns in Arizona are fortunate to be involved in a fairly progressive State shared revenue program which passes through funding to Arizona municipalities from five State revenue sources. As a rule, municipalities in other States do not receive as great a share of state revenues. The following are sources of State shared revenue.

- **State Transaction Privilege Tax (sales tax).** The current rate of the State sales tax is five and six-tenths percent (5.6%). Cities and towns share in a portion of the collection total. A municipality receives its share of state shared sales tax based on the relation of its population to the total population of all incorporated cities and towns in the State according to the decennial census. This money may be expended for any municipal public purpose; out-side this stipulation, there is not restriction on the expenditure of these revenues. The State sales tax revenues are distributed on a monthly basis to cities and towns.
    - Fiscal Year 2009 estimates were provided by the State of Arizona.

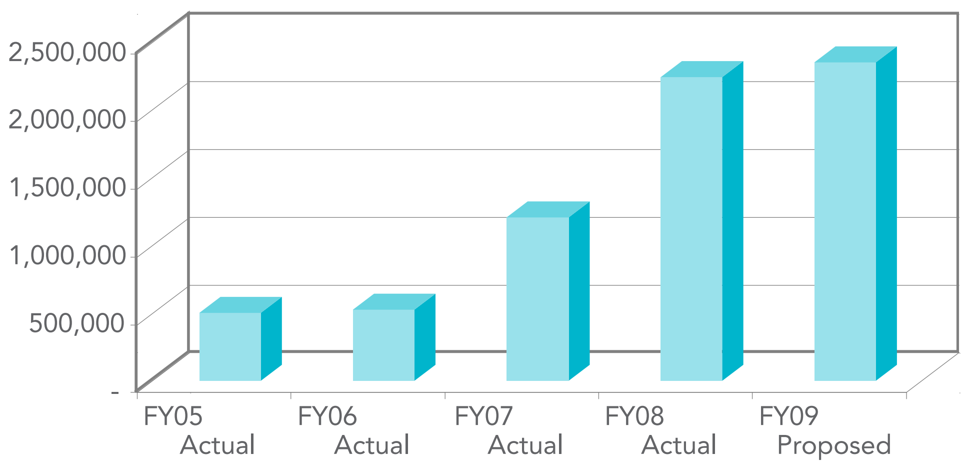
City of Maricopa History of State Transaction Privilege Tax (sales tax)



State Shared Revenues

- **State Income Tax.** A 1972 citizen's initiative gave the cities and towns a percentage share of the state income tax. This source of money is officially called urban revenue sharing. The percentage has fluctuated in the past but returned to 15% in FY2004-2005, the percentage established by the original initiative. This money is distributed to a city or town based on the relation of its population to the total population of all incorporated cities and towns in the State according to the decennial census. The annual amount of urban revenue sharing money distributed is based on income tax collections from two years prior to the fiscal year in which the city or town receives these funds. There is no restriction on the expenditure of urban revenue sharing funds, except that they must be expended for a municipal public purpose. Revenues from this source are distributed on a monthly basis.
    - Fiscal Year 2009 estimates were provided by the State of Arizona.

City of Maricopa History of State Income Tax

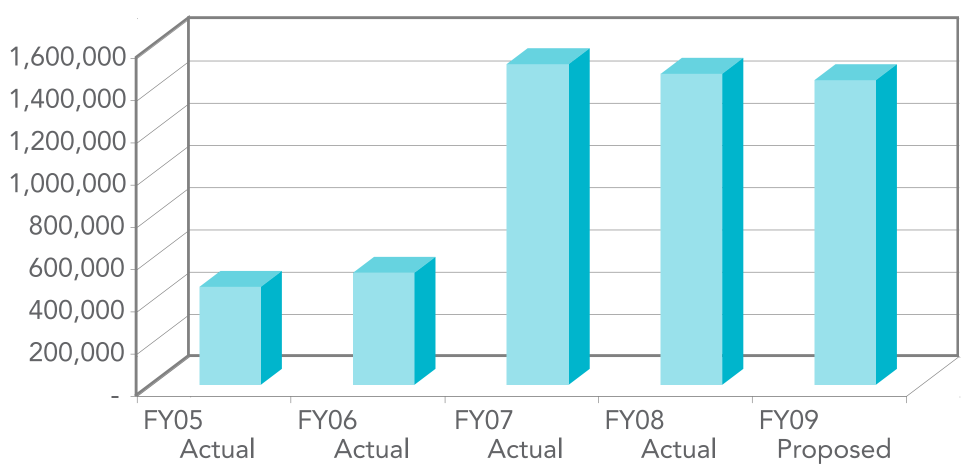


- **Highway User Revenues.** This revenue source is commonly referred to as the gasoline tax; however, there are a number of additional transportation related fees including a portion of vehicle license taxes which are placed in the highway user revenue fund. Cities and towns receive 27.5% of the highway user revenues. One-half of the monies which a city or town receives under this formula is distributed on the basis of the municipality's population in relation of all incorporated cities and towns in the State according to the decennial census. The remaining half of the highway user revenue monies is allocated on the basis of "county of origin" of gasoline sales and the relation of a municipality's population to all incorporated cities and towns in the county. (The "county of origin" factor used in the formula is determined on the basis of the gasoline and other fuel sales in a county in relation to the sale of gasoline and other fuels in the counties in the State). The intent of the distribution formula is to spread a portion of the money across the State solely on the basis of population while the remaining money flows to those areas with the highest gasoline and other fuel sales. 3% of the State portion of this fund is directed to cities with a population of over 300,000. Also, 7.67% of the State portion is allocated to certain projects in Maricopa and Pima Counties. These monies are distributed on a monthly basis.

There is a State constitutional restriction on the use of the highway user revenues, which require that these funds be used solely for street and highway purposes. Eligible expenditures would include the cost of right-of-way acquisition, construction, reconstruction, maintenance, repair, roadside development of city and town roads, street and bridges and payment of the interest and principal on highway and street bonds. This would include specific activities such as the paving of streets, construction of sidewalks, curbs, gutters, street lighting and placement of traffic signs. In 1999 a new law was passed that specifically prohibits the use of highway user revenue for the enforcement of traffic laws or the administration of traffic safety programs. This revenue source is heavily restricted and the Auditor General of the state of Arizona can conduct performance audits for this funding source. The penalty of non-compliance can be high and effect future distribution of funds.

- Fiscal Year 2009 estimates were provided by the State of Arizona.

City of Maricopa History of Highway User Revenue

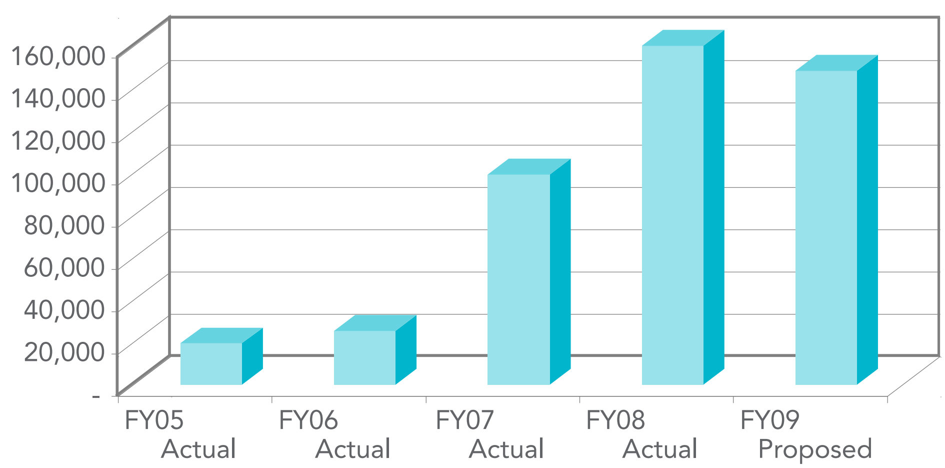


- **Local Transportation Assistance Fund.** This source of State shared revenues is State lottery. Distribution of the fund is based on population, with all cities and towns receiving at least $10,000. A minimum total distribution is guaranteed to cities and towns in the amount of $20.5 million for each fiscal year. This minimum distribution was established as a guaranteed appropriation from the State general fund. In addition, a maximum distribution of $23 million will be distributed to cities and towns if this amount is generated by the lottery. Eligible expenditures of these funds would include street and highway project for any construction or reconstruction in public right-of-way as well as transit programs such as the purchase of buses. These funds however could not be used for the purchase of police cars and other law enforcement equipment. Communities with a population of more than 300,000 must use this revenue for public transportation (mass transit) purposes, except for 10% which may be used as specified below.

If the fund does reach the $23 million amount, then 10% of the local transportation assistance fund monies received by each community may be used for cultural, educational, historical, recreational or scientific facilities or programs. This portion of the lottery monies may also be used for programs or services for non-residential outpatients who are developmentally disabled. However, before this percentage may be spent, an equal cash match must be obtained from non-public monies. The State Treasurer's office distributes the city and town share of these monies as they receive them.

- Fiscal Year 2009 estimates were provided by the State of Arizona.

City of Maricopa History of Local Transportation Assistance



- **Secondary LTAF (LTAF II).** A Secondary LTAF has been established that is eligible to receive revenue from the Powerball lottery. After the state lottery director determines that deposits to the state general fund from multistate lottery game (Powerball) revenues have reached $21 million, a maximum of $18 million is to be paid to the secondary LTAF from this source. In the 2006 legislative session, the threshold going to the state general fund was increased to $37 million.

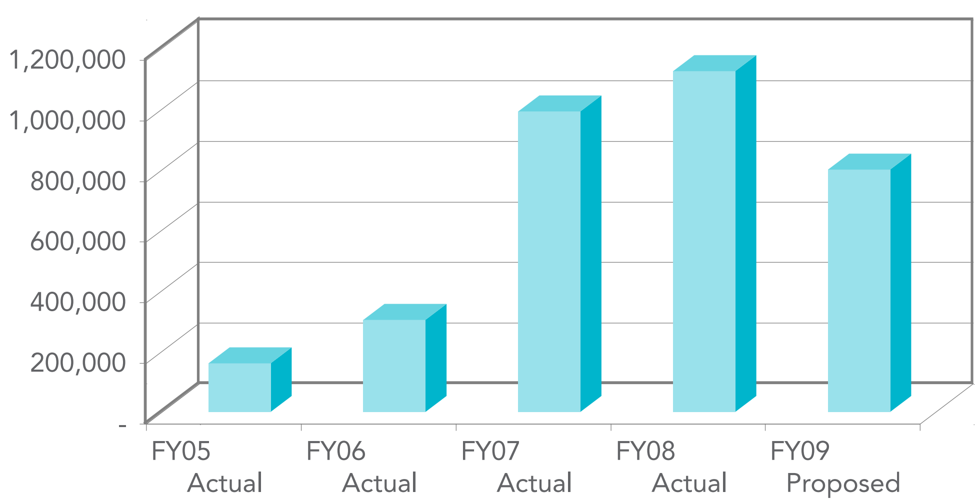
  The monies in this secondary LTAF are distributed differently than the original LTAF. From this fund ADOT will award grants to cities, towns, and counties according to the following matching requirements: Maricopa County, Pima County, and cities with a population of 50,000 or more persons must provide a one to one match; for the other 13 counties and cities and towns with a population of less than 50,000 persons – a one to four match must be provided. All monies awarded from the secondary LTAF can only be used for the public transit services, including operating and capital purposes except for cities and towns that receive less than $2,500, which can use it for any transportation purpose.

  - No estimate was included for Fiscal Year 2009.

- **Vehicle License Tax.** Approximately twenty percent of the revenues collected for the licensing of motor vehicles are distributed to incorporated cities and towns. (Thirty-Eight percent of the total revenues from this source are distributed to the highway user revenue fund and four percent to the state highway fund.) A city or town receives its share of the vehicle license tax collections based on its population in relation to the total incorporated population of the county. These monies are distributed on a monthly basis. The only stipulation on the use of this revenue is that is must be expended on a public purpose.

  - Fiscal Year 2009 estimates were based on trends from last few years with adjustments for current economic conditions.

City of Maricopa History of Vehicle License Tax



Federal Revenues

The Federal government has curtailed a number of programs, which had revenue available for cities and towns. The amount of Federal assistance, type of programs and the projects for which the money can be expended from other sources are constantly changing. Summarized below are the two general categories of Federal revenue sources which remain.

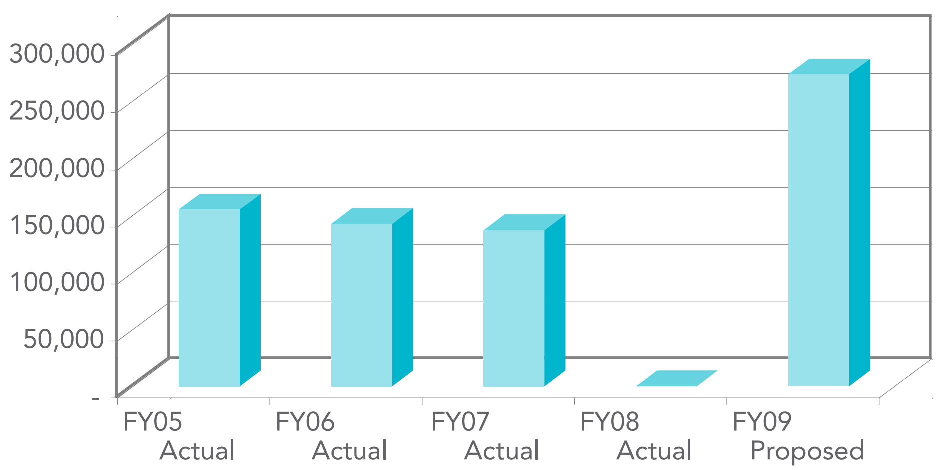
- **Block Grant Programs.** A block grant program, in theory, is designed to fund various Federal programs within a broadly defined area. An example of a block grant program is the Community Development Block Grant program (CDBG). This particular block grant program is designed to fund a variety of housing, public works and physical construction projects.

  A portion of the CDBG program is directed to smaller cities and towns. Under this portion of the program, the State allocates community development monies to cities and towns with populations of less than 50,000 persons. This is not an entitlement program, cities and towns must apply to receive these grants. In most areas, the council of governments receives the applications and determines the allocation from this program.

  - Fiscal Year 2009 estimates were based on all possible grants for the year.

- **Categorical Grants.** Categorical grants are special Federal appropriations of money to fund specific projects of a definite limitation and scope. For example, a Federal grant to fund the construction of a wastewater treatment facility would be a categorical grant, since the construction of this facility would have the limited use and scope of "wastewater treatment." Categorical grants are usually awarded within a strict framework of Federal guidelines governing this single purpose program. Cities and towns must meet specific guideline requirements to receive Federal money. Securing a Federal categorical grant also involves competition between various levels of government. At one point in time, categorical grants were more prevalent; however, this source of funding has become very limited in recent years.

City of Maricopa History of CDBG



Local Revenue Sources

Arizona's cities and towns under State law have the authority to establish certain taxes for revenue purposes. In addition to this power of taxation, there are a number of other fees and finance mechanisms available to cities and towns to support local service programs.

- **Property Tax.** The property tax has been a traditional means of financing city and town services. While the importance of the property tax has been decreasing in recent years due to the increased revenues from sales taxes, it still is an important source of local revenue for many of Arizona cities and towns. The property has also been one of the most stable sources of revenue, because it is not subject to the same fluctuations sometimes experienced with excise taxes.

  Beginning with the 1980 tax year, property tax levies were divided into a primary property tax levy and a secondary tax levy. A secondary property tax may only be levied to pay the principal and interest charges on bonds. The primary property tax levy is for all other public purposes. There are no limits on the amount of secondary, while there are strict limits placed on the primary property tax.

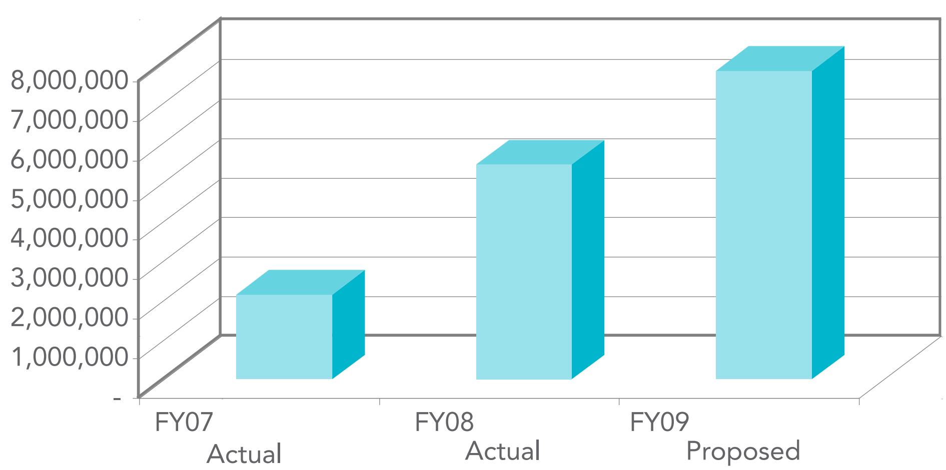
  Any city or town which wants to initiate a primary property tax must submit the proposed amount to be raised from the tax to the voters at an election to be held on the third Tuesday in May. The amount approved by the voters will constitute the base on which future limitations on levies will be determined. If the voters approve the levy, the city or town council may levy the tax in the fiscal year immediately following the election. The city or town, however, is not required to levy the entire amount approved by the voters in the first year. Caution should be exercised in establishing this base levy because not only will it be used as the base for future limitations but also cities currently have no authority to override the limit once it is established.

The Property Tax Oversight Commission was formed in 1988 to review the primary property tax levy limitations of each city, town, county and community college district in the State. The county assessor is required to transmit and certify to the Property Tax Oversight Commission and the city or town council the values necessary to calculate the levy limit. Those values are to be transmitted on or before the tenth day of February (These values are to be used in calculating the property tax levy limit and the Truth in Taxation requirements). Each city or town is required to notify the Property Tax Oversight Commission in writing within ten days of its agreement or disagreement with the final levy limit. If a city receives notification of a violation of the levy limit, the city has until October 1 to appeal to the Commission. If the city continues to dispute the findings of the Commission after the hearing, it may appeal the decision to Superior Court within thirty days after the decision.

A city or town that incorporates or annexes land must give proper notice before levying a property tax in the next fiscal year. State law requires that notice must be given to the Department of Revenue and the appropriate county assessor. A map showing the boundaries of the newly incorporated or annexed area should be included along with the report. This notice must be given by November 1 of the year prior to the fiscal year when the tax will be levied.

- Fiscal Year 2009 estimates for primary property tax were provided by Pinal County Assessor's Office.

City of Maricopa History of Primary Property Tax



- **Local Transaction Privilege Tax (Sales Tax).** In recent years, the local sales tax, as a means of financing municipal services, has been increasing in importance. All incorporated cities and towns presently have a local sales tax. As the name implies, this is a tax on retail sales and other activities such as contracting. The statewide average local sales tax rate is two and one-quarter percent (2.25%). Rates range from one percent to three and one-half percent. The State law authority for a local sales tax is contained in state statutes. A city or town may establish a local sales tax through adoption of an ordinance. The initiation number of charter cities with charter provisions requiring voter approval to increase the sales tax above a specified limit. Cities and towns adopting a local sales tax may join the sales tax collection system administered by the State by entering into an intergovernmental agreement with the department of Revenue. Under the system, the local sales tax is collected by the State Department of Revenue at the same time the State sales tax is collected. The local sales tax collections are then returned to the city or town. Approximately eighty-seven percent of the municipalities are in the State collection system.

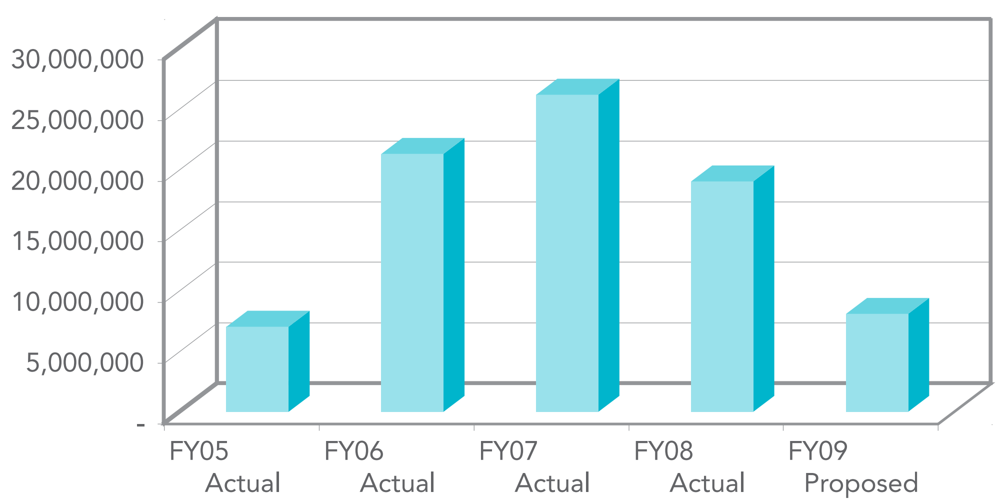
  All of the cities and towns in the state that impose a local sales tax have adopted the model city tax code with various options. In order to keep taxpayers up to date on what a particular city either taxes or exempts, we have prepared a document which consists of a master version of the model city tax code with both model options and local options displayed within the code, a chart displaying which options each particular city or town has chosen and a section showing other specific information pertaining to each city and town.

- **Use Tax.** Another revenue source which is being used more in recent years is the use tax. Essentially, a use tax is an excise tax on the use or consumption of tangible personal property that is purchased without payment of a municipal tax to any city or town. In other words, it is a mechanism for taxing property which cannot be taxed using a local sales tax since the purchase was made outside the boundaries of the municipality where the personal property is used. The use tax, if enacted, is part of the model tax code discussed above.

- **Bed Tax.** Most cities and towns have adopted a bed tax in addition to their local sales tax. A bed tax is a special excise tax on hotel and motel room rentals. Increases in the bed tax rate by cities which had a population of more than 100,000 by the most recent decennial census are governed by state statute which specifies how the proceeds from such increases must be used. The imposition of this tax in most cities and towns comes under the model city tax code discussed above.

  - Fiscal Year 2009 estimates for local sales tax were based on construction sales tax at a rate of 100 homes per month of construction production and annual trend estimates for retail/other sales tax.

City of Maricopa History of Local Transaction Privilege Tax



- **Business License Tax.** The general law authority for a city or town to initiate a local sales tax is the same authority which allows a municipality to place a license tax on professions, occupations or businesses within the community. The State law stipulates that a business license tax can only be issued for the period of one year and may not be less than ten dollars or more than five thousand dollars. However, charter cities are not necessarily subject to this stipulation. Most cities and towns in Arizona have a business license tax structure of some type. There have been, traditionally, two means of levying these taxes on local businesses - a flat rate charge on a quarterly or annual basis or a flat rate charge based on the gross proceeds of sales. While most cities and towns have this type of tax, it has not been an important source of revenue. The tax has been used primarily as a means of regulating businesses within the community.

  A city or town which had a population in excess of 100,000 by the most recent decennial census cannot increase business license taxes or fees on "hospitality industry businesses" without a corresponding equal dollar increase in the business license tax or fees imposed on all other businesses in the city or town. "Hospitality industry businesses" means a restaurant, bar, hotel, motel, liquor store, grocery store, convenience store or recreational vehicle park. This definition was amended to include rental car companies located within a county stadium district which has imposed a car rental surcharge.

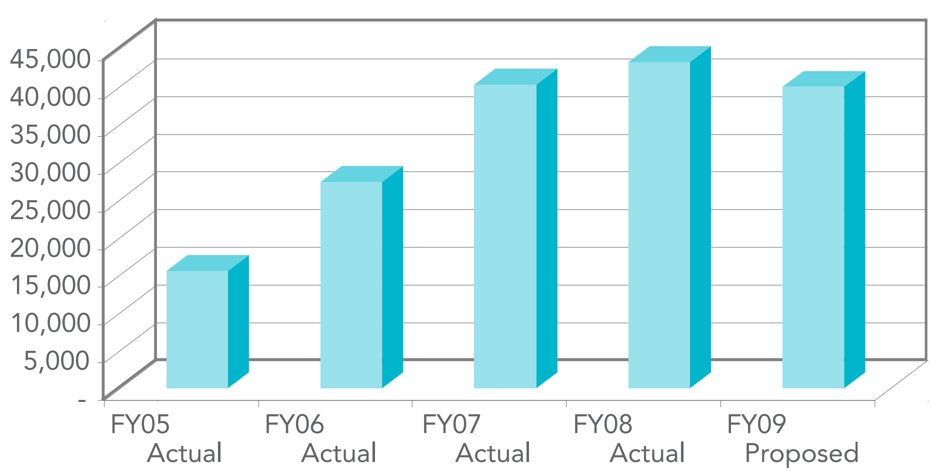
  - Fiscal Year 2009 estimates were based on current level of business licenses with an adjustment for current economic condition.

- **Franchise Tax.** Cities and towns in Arizona are given exclusive control over all rights-of-way dedicated to the municipality. This exclusive control enables the municipality to grant franchise agreements to utilities using the city or town's streets in the distribution of utility services. As an example, many cities and towns in Arizona have granted franchises to natural gas companies to place gas lines underground within the public right-of-way. In conjunction with this franchise, a franchise tax can be charged by the municipality. While there is no specific amount or limitation in State law, the traditional amount for a franchise tax has been two percent of the gross proceeds from the sale of utility services within the city or town. To grant a franchise, the municipality must place the question before the voters of the community for approval. State law also limits the term of a franchise agreement to a maximum of twenty-five years.

  City of Maricopa has several franchise agreements with various communications providers in the area as well as some utilities serving Maricopa. Revenues now exceed $700,000 per year.

  - Fiscal Year 2009 estimates were based on trends from previous years averages with adjustment for current economic conditions.

City of Maricopa History of Business License Tax



Local Revenue Sources

- **Magistrate Court Fines.** Another revenue source for Arizona cities and towns is the money from fines paid to the municipal magistrate court. Specifically, this revenue would come from traffic violations and other fines paid for the violation of municipal ordinances. The courts, counties, cities and towns have the authority to contract with the Motor Vehicle Division to require payment of traffic fines, sanctions and penalties that total in excess of $200 prior to the renewal of automobile registrations.

  City of Maricopa operates its municipal court with an Intergovernmental agreement with Pinal County to have their Justice Court conduct municipal court functions for the City of Maricopa. They have over the course of growth within the city have increase revenues as well as costs for their services. Currently, City Magistrate's revenues for court costs, fees and charges are in excess of $400,000, well below costs of under $100,000 per year.

  - Fiscal Year 2009 revenues are based on current levels of activities.

- **User Fees.** User fees are collected from municipal residents for the use of certain city and town facilities or services. Examples of user fees would include the amounts charged to use lighting in city or town parks or fees charged for the use of the sewer system.

  City of Maricopa charges user fees for parks and recreation activities, passport charges, transit services charges, and public safety hearing charges. Parks and recreational charges are currently about $225,000 per year, transit service charges are about $60,000 per year and public safety hearing charges are estimated at $15,000 per year. Passport activities generate about $30,000 per year. All these services will continue to grow with more citizens needs being met at City hall for these services.

  - Fiscal Year 2009 revenues are based on current levels of activities.

- **Permit Fees.** Revenues from this source include the fees collected from building permits, zoning permits and a variety of other programs. Residential and Commercial permitting fees have had a drop off given recent economic conditions in the real estate market. City of Maricopa has about $2.4 million in revenues from construction permitting activities. As far as planning and engineering fees the City has about $600,000 in revenues.

  - Fiscal Year 2009 revenues for permit activities on current level estimates.

- **Development (Impact) Fees.** Cities and towns have the authority to impose fees that provide a direct benefit to the newly developed area. There are specific requirements behind the development of these fees and special attention should be paid to state statute.

  In 2005, legislation passed amending the development fees statute, requiring an annual report to account for the collection and use of development fees. The report is due within 90 days of the end of each fiscal year and is required to be maintained in the clerk's office. Copies of the report are required to be made available to the public upon request. The law allows the report to contain financial information that has not been audited.

  There are six specific areas that the report is required to address:

  1. The amount of each type of development fee assessed by a city or town.
  2. The balance of each fund, at the beginning and end of the fiscal year, maintained for each type of development fee.
  3. The amount of interest or other earnings on monies in each fund as of the end of the fiscal year.
  4. The amount of development fees used to repay either

     (a) bonds issued by the municipality to pay the cost of a capital improvement project for which the development fee was assessed or

     (b) monies advanced by the city or town from funds other than development fee funds to pay for a capital improvement project for which a development fee was assessed.
  5. The amount of development fees spent on each capital improvement project for which a development fee was assessed and the physical location of each capital improvement project.
  6. The amount of development fees spent for each purpose other than a capital improvement project for which a development fee was assessed.

Failing to comply with these reporting requirements will prohibit the municipality from collecting development fees until the report is filed. The reporting requirements become effective on August 12, 2005. The first development fee report is due on September 28, 2005 and will cover development fees assessed in FY 2004-2005.

City of Maricopa adopted Development Impact Fees September 2005 and started collections November 2005.

- Fiscal Year 2009 revenue projected are based on 100 single family homes permitted per month at an average level for the year.

City of Maricopa History of Development Impact Fee collections